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To: Supervisor Zev Yaroslavsky, Chairman
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From: William T Fujioka
Chief Executive Officer

WASHINGTON, D.C. UPDATE ON EXTENSION OF NATIONAL FLOOD INSURANCE PROGRAM, SURFACE TRANSPORTATION PROGRAMS, AND REDUCED STUDENT LOAN INTEREST RATE

On June 29, 2012, the Senate and House approved the conference report to H.R. 4348, the Moving Ahead for Progress in the 21st Century Act ("MAP-21"), clearing it for the President's signature. The bill extends the authorizations for surface transportation programs through Federal Fiscal Year (FFY) 2014, the National Flood Insurance Program (NFIP) through FFY 2017, and the current 3.4 percent student loan interest rate through June 30, 2013. On June 29, 2012, the President also signed H.R. 6064 into law, which temporarily extends surface transportation programs and the current student loan interest rate through July 6, 2012. Without this extension, the student loan interest rate would have doubled to 6.8 percent and surface transportation funding would have expired on June 30, 2012. The President is expected to sign H.R. 4348 by July 6, 2012.

In a major victory for the County, conference report language, which the County opposed, was dropped from the conference report on H.R. 4348 on June 28, 2012, which could have resulted in an estimated 200,000 properties and 800,000 residents and businesses being required to purchase flood insurance. The final bill also importantly does not offset the estimated $6.2 billion cost of extending the 3.4 percent student loan interest rate for one year using any spending reductions that could adversely affect the County. A student loan interest rate bill (H.R. 4628), which was passed by the House in April 2012, would have repealed the Prevention and Public Health Fund, which finances investments in prevention, wellness, and public health services. Below is a more detailed summary of NFIP and surface transportation reauthorization provisions of County interest.

National Flood Insurance Program (NFIP)

The bill reauthorizes the NFIP, which otherwise would have expired on July 31, 2012, through FFY 2017. The program previously had been extended more than a dozen times since its last long-term reauthorization expired on September 30, 2008. The NFIP assures that flood insurance is available to homeowners, renters, and businesses in areas at-risk of flooding. However, the program has not been actuarially sound, in part, because some NFIP policyholders receive subsidized insurance rates. Moreover, flooding caused by Hurricanes Katrina, Rita, and Wilma in 2005, resulted in huge flood claims, which forced the program to borrow heavily (over $18 billion) from the U.S. Treasury. While the NFIP is an extremely popular program, its long-term reauthorization had been delayed due to the difficulty of making the program actuarially sound without imposing far more costly flood insurance premiums and flood control requirements.

The original conference report for H.R. 4348, which initially was released, included language that would have helped make the NFIP more financially solvent by requiring the purchase of flood insurance in "residual risk areas," which, as defined, would have covered lower risk areas, including those protected by dams, levees, and other flood control structures. For example, areas along the Los Angeles River and the Rio Hondo Channel, which are protected against 133-year floods by the Los Angeles Control Drainage Area Project, would have been subject to mandatory flood insurance. The County's Department of Public Works (DPW) estimated that 200,000 properties and 800,000 residents and businesses in potential residual risk areas could have been affected countywide. The County's Washington, D.C. advocates, a number of Board offices, and DPW pursued the removal of the residual risk area language, which, in fact, was removed from the final conference report on June 28, 2012.

The final bill, however, includes other changes aimed at making the NFIP more financially solvent. For example, it would eliminate subsidies of flood insurance premiums for certain properties, such as those properties which have experienced severe repetitive losses, properties for which the sum of insured losses exceed their market value, business properties, residential properties which are not owner-occupied, and properties which either are purchased, substantially improved, or damaged after the date of the bill's enactment. The bill also raises the maximum cap on annual premium increases from the current 10 percent to 20 percent except that an annual increase of 25 percent until the premium rate is actuarially sound will be required for properties which have experienced severe repetitive losses, properties for which the sum of insured losses exceed their market value, business properties, residential properties which are not owner-occupied, and properties which either are purchased, substantially improved, or damaged after the date of the bill's enactment.

MAP-21 Surface Transportation Reauthorization

The bill reauthorizes highway, mass transit, and other surface transportation programs generally at their current level of funding plus inflation for 27 months through September 30, 2014. It also extends Highway Trust Fund excise taxes, which are used to finance surface transportation programs, at their current rates of 18.4 cents a gallon for gasoline and 24.4 cents a gallon for diesel for two additional years through September 30, 2016. Because such tax revenues have become insufficient to finance surface transportation programs at their current levels, Congress has had to augment them with General Fund financing -- augmented funding that will continue to be provided under H.R. 4348. Surface transportation programs have been extended through many short-term extensions since their last long-term reauthorization (called "SAFETY-LU") expired on September 30, 2009 with the main obstacle being how to adequately finance the programs without adding to the Federal budget deficit or raising taxes.

The MAP-21 bill would distribute highway formula grants to states based on each state's share of FFY 2012 highway funding, and also guarantee each state at least 95 percent of excise taxes collected in the state. It provides states with financial incentives to create freight plans, including by increasing the Federal share of costs for any project on a state's freight plan. In addition, it includes major reforms of the environmental review and planning process, such as by expanding the number and types of transportation projects that are exempt from Federal environmental reviews, providing expedited procedures for approval of projects with minimal environmental impact, and allowing for the purchase of right-of-ways and for design to begin prior to final environmental clearance.

Of particular interest to the Los Angeles County area, the bill includes "America Fast Forward" provisions to increase the Transportation Infrastructure Finance and Innovation Act (TIFIA) Program, which provides low-interest loans and leverages Federal dollars by encouraging additional non-Federal investments for construction and other projects, from its current roughly $122 million a year funding level to $750 million in FFY 2013 and $1 billion in FFY 2014. The maximum Federal share of project costs under TIFIA also will increase from the current 33 percent share to 49 percent.

We will continue to keep you advised.

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MR:MT:er

c: All Department Heads
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